

OPEN MEETING ITEM



0000046104

BRIAN C. McNEIL
Executive Director

22

COMMISSIONERS

JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

ORIGINAL



ARIZONA CORPORATION COMMISSION

DATE: March 17, 2006

DOCKET NO: W-01344A-05-0183 and ^w-01344A-05-0647

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Wolfe. The recommendation has been filed in the form of an Opinion and Order on:

TACNA WATER MANAGEMENT COMPANY

(RATES/FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

MARCH 27, 2006

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

APRIL 4 AND 5, 2006

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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BRIAN C. McNEIL
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 JEFF HATCH-MILLER, Chairman
4 WILLIAM A. MUNDELL
5 MARC SPITZER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE APPLICATION OF
9 TACNA WATER MANAGEMENT COMPANY
10 FOR AN INCREASE IN RATES.

DOCKET NO. W-01344A-05-0183

11 IN THE MATTER OF THE APPLICATION OF
12 TACNA WATER MANAGEMENT COMPANY
13 FOR APPROVAL OF A FINANCE LOAN TO
14 IMPROVE ITS OPERATING SYSTEM.

DOCKET NO. W-01344A-05-0647

DECISION NO. _____

ORDER

15 Open Meeting
16 April 4 and 5, 2006
17 Phoenix, Arizona

18 **BY THE COMMISSION:**

19 * * * * *

20 Having considered the entire record herein and being fully advised in the premises, the
21 Commission finds, concludes, and orders that:

22 **FINDINGS OF FACT**

23 1. Tacna Water Management Company ("Tacna" or "Company") is an Arizona public
24 service corporation located approximately 40 miles east of Yuma along Interstate Highway 8 in
25 Yuma County, Arizona. Tacna, which is organized as a "C" corporation, currently provides water
26 utility service to approximately 152 service connections.

27 2. Tacna is currently charging rates approved in Decision No. 49561 (November 2,
28 1978).

3. On March 11, 2005, Tacna filed with the Arizona Corporation Commission
("Commission") the above-captioned application for a rate increase, using a test year ended
December 31, 2003.

4. On April 1, 2005, Tacna docketed a notice that it mailed to all its customers
notification of its requested rate increase on March 10, 2005.

5. No opinions or complaints were filed in response to the rate application.

6. On April 1, 2005, Tacna filed in this docket an application for approval of a curtailment plan tariff and an application for approval of a cross-connection backflow prevention tariff.

7. On April 11, 2005, the Commission's Utilities Division ("Staff") docketed a copy of a letter informing Tacna that its application had not met the sufficiency requirements of A.A.C. R14-2-103.

8. On May 9, 2005, and May 31, 2005, Tacna filed supplements to its application.

9. On June 8, 2005, Staff docketed a copy of a letter again informing Tacna that its application had not yet met the sufficiency requirements of A.A.C. R14-2-103.

10. On July 25, 2005, Staff docketed a copy of a letter informing Tacna that its amended application was sufficient, and classifying Tacna as a Class E utility.

11. On July 28, 2005, Tacna filed additional information to supplement its application.

12. On August 16, 2005, Staff filed a request to suspend the time clock indefinitely to allow Staff adequate time to obtain and review Tacna's data responses, stating that it would continue to process the application as quickly as possible, and that Tacna had no objection to Staff's request. Staff's request was granted by Procedural Order issued August 25, 2005.

13. On September 7, 2005, Tacna filed the above-captioned financing application, requesting authority to incur debt with the Arizona Water Infrastructure Financing Authority ("WIFA") for the purpose of funding installation of a water treatment system to treat surface and groundwater in order to meet the United States Environmental Protection Agency's ("EPA") new maximum contaminant level ("MCL") of 10 parts per billion ("ppb") for arsenic. The Company reports arsenic concentrations for its two wells at 30 ppb. While the financing application did not indicate the amount of the anticipated WIFA loan, based on Staff's review of loan documentation, Staff states that Tacna anticipates borrowing \$195,201 from WIFA.

14. On September 19, 2005, Tacna caused notice of its financing application to be published in *The Sun*, a newspaper of general circulation in Tacna's service area.

1 15. On September 30, 2005, Staff filed a Motion to Consolidate the rate application and
2 the financing application. Staff's motion was granted by Procedural Order issued October 31, 2005.

3 16. On October 18, 2005, Tacna filed a letter indicating that it had recently been reinstated
4 as a corporation, and providing notification of its name change from Tacna Water Company to Tacna
5 Water Management Company.

6 17. On January 24, 2006, Staff filed its Staff Report in these consolidated dockets,
7 recommending approval of the financing request, recommending an alternative rate schedule, and
8 making other recommendations.

9 18. In the test year, as adjusted by Staff, Tacna collected total revenue of \$27,045, which,
10 with adjusted operating expenses of \$15,892, produced an operating income of \$11,153, for an
11 operating margin of 41.24 percent.

12 19. Tacna's proposed rates, as filed, would produce total operating revenue of \$45,362
13 and operating income of \$29,761, for a 65.61 percent operating margin. The Company's request
14 represents an increase of \$18,317, or 67.73 percent, over test year revenue of \$27,045.

15 20. Staff's recommended rates would produce total operating revenue of \$27,045 and
16 operating income of \$11,153, for a 41.24 percent operating margin. Staff's recommendation
17 represents no increase over test year revenues.

18 21. Tacna proposed an Original Cost Rate Base ("OCRB") of \$936. As discussed further
19 below, Staff recommended adjustments to rate base totaling \$2,026, for an OCRB of \$2,962. Staff
20 believes that Tacna's rate base is too small to render a rate of return analysis meaningful, and
21 proposes rates based on operating margin instead.

22 22. The rates and charges for the Company at present, as proposed in the application, and
23 as recommended by Staff are as follows:

	Present Rates	Proposed Rates	
		Company	Staff
<u>MONTHLY USAGE CHARGES:</u>			
<u>Residential:</u>			
5/8" x 3/4" Meter	\$8.00	\$15.50	\$ 7.00
3/4" Meter	n/a	16.00	7.00
1" Meter	n/a	n/a	11.62
1 1/2" Meter	n/a	n/a	23.25

1	2" Meter	n/a	n/a	37.20
	3" Meter	n/a	n/a	69.75
2	4" Meter	n/a	n/a	116.25
3	6" Meter	n/a	n/a	232.50

4	Gallons included in minimum	3,000	0	0
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5 Commodity Charge per 1,000 gallons

6	All gallons over 3,000	\$0.90	n/a	n/a
	Tier one: zero gallons to 3,000 gallons	n/a	\$1.80	n/a
7	Tier two: 3,001 gallons to 8,000 gallons	n/a	1.75	n/a
	Tier three: all gallons over 8,000 gallons	n/a	1.65	n/a
8	Tier one: zero gallons to 3,000 gallons	n/a	n/a	\$0.75
	Tier two: 3,001 gallons to 7,000 gallons	n/a	n/a	0.95
9	Tier three: all gallons over 7,000 gallons	n/a	n/a	1.05

10 Commercial:

11	5/8" x 3/4" Meter	\$14.00	\$27.72	\$ 7.00
	3/4" Meter	n/a	27.72	7.00
12	1" Meter	14.00	29.00	11.62
	1 1/2" Meter	n/a	n/a	23.25
13	2" Meter	14.00	35.00	37.20
	3" Meter	n/a	n/a	69.75
14	4" Meter	n/a	n/a	116.25
15	6" Meter	n/a	n/a	232.50

16	Gallons included in Minimum	3,000	0	0
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17 Commodity Charge per 1,000 gallons

18	All gallons over 3,000	\$0.90	n/a	n/a
	Tier one: zero gallons to 3,000 gallons	n/a	\$2.20	n/a
19	Tier two: 3,001 gallons to 8,000 gallons	n/a	2.00	n/a
	Tier three: all gallons over 8,000 gallons	n/a	1.90	n/a
20	Tier one: zero gallons to 3,000 gallons	n/a	n/a	\$0.75
	Tier two: 3,001 gallons to 7,000 gallons	n/a	n/a	0.95
21	Tier three: all gallons over 7,000 gallons	n/a	n/a	1.05

22 SERVICE LINE AND METER INSTALLATION CHARGES:

23 (Refundable pursuant to A.A.C. R14-2-405)

24	5/8" x 3/4" Meter	\$100.00	\$760.00	\$520.00
	3/4" Meter	120.00	780.00	600.00
25	1" Meter	160.00	1,400.00	690.00
	1 1/2" Meter	300.00	2,100.00	935.00
26	2" Meter	400.00	4,200.00	1,595.00
	3" Meter	n/a	n/a	2,275.00
27	4" Meter	n/a	n/a	3,520.00
28	6" Meter	n/a	n/a	6,275.00

SERVICE CHARGES:

Establishment	n/a	\$500.00	\$30.00
Establishment (After Hours)	n/a	750.00	45.00
Reconnection (Delinquent)	5.00	75.00	25.00
Reconnection (Delinquent) After Hours	n/a	100.00	45.00
Meter Test (If Correct)	n/a	n/a	25.00
Deposit	n/a	50.00	*
Deposit Interest (per annum)	n/a	50.00%	*
Re-Establishment (within 12 months)	25.00	50.00	**
NSF Check	n/a	20.00	20.00
Deferred Payment	n/a	n/a	0.00%
Meter Re-Read (If Correct)	2.50	30.00	20.00
Late Fee		15.00	***

* Per A.A.C. R14-2-403(B).

** Months off system times the monthly minimum, per A.A.C. R14-2-403(D).

*** 1.50 percent of unpaid monthly balance.

23. Staff adjusted the Company's proposed \$122,942 Plant in Service balance downward by \$31,751, for a balance of \$91,191. This includes upward adjustments totaling \$37,725 to several accounts, including Land and Land Rights, Structures and Improvements, Distribution Reservoirs and Standpipes, Hydrants, Office Furniture and Equipment, Transportation Equipment, Toolshop and Garage Equipment, and Power Operated Equipment. It also includes a total of \$69,476 in downward adjustments to Wells and Springs, Pumping Equipment, Water Treatment Equipment, Transmission and Distribution Mains, Services, an Other Plant and Miscellaneous Equipment. Staff stated that the purpose of its adjustments was to remove plant additions claimed for years 1978 through 2003 which Staff could not verify, and that Staff instead allowed the Plant in Service balance that was allowed in the Company's previous rate case. Staff's proposed adjustments to Plant in Service are reasonable and we will adopt them.

24. Staff calculated Accumulated Depreciation by beginning with the balance of \$35,290 established in Decision No. 49561, and adding depreciation expense of \$54,006 accumulated from year 1978 through year 2003, for a total Accumulated Depreciation balance of \$89,296, which is \$32,060 less than the Company's proposed \$121,356. Deducting the Accumulated Depreciation balance of \$89,296 from the Plant in Service balance of \$91,191 results in a Net Plant in Service balance of \$1,895.

1 25. The Company has no Advances in Aid of Construction ("AIAC") or Contributions in
2 Aid of Construction ("CIAC") balances. Staff reviewed and accepted the Company's Meter Deposits
3 balance of \$650, for total advances of \$650.

4 26. Staff calculated a Cash Working Capital level of \$1,717 using the formula method
5 based on its recommended level of operating expenses.

6 27. Deducting Advances of \$650 and adding Cash Working Capital of \$1,717 to Net Plant
7 of \$1,895 results in an OCRB of \$2,962.

8 28. Staff's proposed adjustments to rate base are reasonable and should be adopted.

9 29. The Company did not file Reconstruction Cost New Less Depreciation rate base
10 schedules. Therefore, the Company's fair value rate base ("FVRB") is equal to its OCRB of \$2,962.

11 30. The Company proposed test year total operating revenue of \$26,556. Staff proposed
12 an upward adjustment of \$489 to reflect revenue produced by the Company's test year bill count.
13 This adjustment is reasonable and will be adopted, for total test year operating revenue of \$27,045.

14 31. Staff proposed a net increase of \$291 to the Company's proposed test year Operating
15 Expenses of \$15,601. Staff's adjustments included the following: A reduction to Property Tax
16 Expense of \$3,410 to allow the amount of \$1,533 paid for property taxes during the test year; a net
17 increase to Outside Service Expense of \$2,352; an increase to Water Testing Expense of \$1,344 to
18 reflect Staff's recommended level of water testing expense; and an increase of \$5 to Depreciation
19 Expense to reflect Staff's recommended level of depreciation expense.

20 32. The Company did not propose any test year Income Tax Expense. Staff stated that its
21 audit revealed that Tacna does not file its own income tax returns, but that instead, its owner files a
22 Schedule C on his personal income tax returns, as if the Company were a sole proprietorship. Staff
23 therefore recommends that no Income Tax Expense be allowed, and further recommends that in
24 regard to the Company's improper income tax filings, that the Company be ordered to:

25 (a) correctly file its tax returns as a corporate entity, correcting for the last
26 three tax years or file for dissolution of the corporate status with the
27 Corporations Division and make the utility a sole proprietorship; and

28 (b) file with Docket Control as a compliance item in this docket, either copies

1 of the corrected tax returns or a copy of the dissolution of the corporation,
2 within 120 days of this Decision.

3 These recommendations are reasonable and will be adopted.

4 33. Staff's recommended net increase of \$291 to Operating Expenses resulted in
5 recommended total operating expenses of \$15,892. Staff's proposed adjustments to test year
6 Operating Expenses are reasonable and will be adopted.

7 34. Subtracting total Operating Expenses of \$15,892 from total Operating Revenue of
8 \$27,045 resulted in a net income for the Company of \$11,153 during the test year.

9 35. Staff recommends revenue of \$27,045, which, with operating expenses of \$15,892,
10 would provide the Company with an operating income of \$11,153, for an operating margin of 41.24
11 percent. Because the Company's Plant in Service is nearly fully depreciated, its rate base is
12 negligible and a rate of return analysis is not meaningful. Under the circumstances, Staff's
13 recommended revenue requirement, which is the same as the Company's test year revenue, is
14 reasonable and will be adopted.

15 36. The Company proposed a three-tier rate structure with no gallons included in the
16 minimum usage charge, and a commodity charge that decreases with increased usage. Staff states
17 that the proposed decreasing commodity charge improperly discounts for increased usage, and
18 proposes an alternative rate design. Staff recommends an inverted three-tier rate design with break-
19 over points at 3,000 and 7,000 gallons for all meter sizes, and no gallons included in the minimum
20 usage charge, in order to encourage efficient water use. Staff believes that its recommended tier
21 breaks will provide an economic incentive for large consumption customers to conserve. We find
22 Staff's proposed rate design to be reasonable and will adopt it.

23 37. The Staff Report states that Staff examined the Company's proposed service charges
24 and requested information from the Company to support the proposed amounts. Staff states that in
25 instances where adequate information to support the proposed amounts was not provided, Staff
26 recommends alternative service charges at reasonable and normal levels, as set forth in Findings of
27 Fact No. 22 above. We find Staff's recommendations to be reasonable and will adopt them.
28

1 38. The Company's proposed rate schedule would increase the median 5/8" x 3/4" meter
2 monthly residential customer bill (6,286 gallons) by \$19.19, or 175.1 percent, from \$10.96 to \$30.15,
3 and would increase the average monthly customer bill (11,209 gallons) by \$20.06, or 130.3 percent,
4 from \$15.39 to \$35.45.

5 39. Staff's recommended rates would increase the median 5/8" x 3/4" meter monthly
6 residential customer bill (6,286 gallons) by \$1.41, or 12.9 percent, from \$10.96 to \$12.37, and would
7 increase the average monthly customer bill (11,209 gallons) by \$2.08, or 13.5 percent, from \$15.39 to
8 \$17.47.

9 40. Staff recommends that the Commission adopt Staff's recommended rates and charges,
10 and makes the following additional recommendations regarding Tacna's rate application:

- 11 (a) that in addition to collection of its regular rates and charges, the Company
12 be authorized to collect from its customers a proportionate share of any
13 privilege, sales or use tax per Commission Rule R14-2-409(D)(5);
- 14 (b) that the Company be ordered to file with Docket Control as a compliance
15 item in this docket, a schedule of its approved rates and charges, within 30
16 days of this Decision;
- 17 (c) that the Company be ordered to use the depreciation rates delineated in
18 Table B of the Engineering Report filed in this case on a going forward
19 basis;
- 20 (d) that the Company be ordered to install wellhead meters during
21 construction of the proposed water treatment system, or within one year of
22 this Decision, whichever is sooner;
- 23 (e) that the Company be ordered to file with Docket Control as a compliance
24 item in this docket, a curtailment plan in the form of Attachment CPT-1 of
25 Staff's Engineering Report, within 45 days of this Decision, for review
26 and certification by Staff;
- 27 (f) that the Company be ordered to file with Docket Control as a compliance
28 item in this docket a backflow prevention tariff in the form found at
www.cc.state.az.us/utility/forms/cross_c.pdf on the Commission's website
within 45 days of this Decision, for review and certification by Staff; and
- (g) that the Company be ordered to file with Docket Control as a compliance
item in this docket a copy of the ADEQ Certificate of Approval to
Construct for its water treatment system within 60 days of this Decision.

1 41. The October 4, 2005 Engineering Report attached to the January 24, 2006 Staff Report
 2 states that Tacna's system currently consists of a pumping site with two wells producing an estimated
 3 total of 310 gallons per minute ("GPM"), an 8,000 gallon pressure tank, and a distribution system
 4 totaling 5,800 feet of water mains serving 152 service connections on 5/8 x 3/4-inch meters. Staff
 5 states that Tacna's current system can adequately serve its present customer base, and could
 6 adequately serve approximately 340 service connections.

7 42. Staff reports that because Tacna does not have wellhead meters, the Company could
 8 not report the actual number of gallons pumped during the test year. Staff is recommending that the
 9 Company be required to install wellhead meters during the construction of the proposed water
 10 treatment system, described below, or within one year of this Decision, whichever is sooner.

11 43. The financing application, filed on September 7, 2005, requests authority to incur debt
 12 with WIFA for the purpose of funding a new water treatment system. Staff's Engineering Report
 13 states that the Company reported arsenic concentrations for its two wells at 30 ppb. The Company is
 14 proposing to install a system to treat surface and groundwater in order to meet the EPA's new MCL
 15 of 10 ppb for arsenic.

16 44. Staff states that the Company plans to use the WIFA loan proceeds to fund two phases
 17 of a total of four phases of construction associated with implementing the use of a 100 acre-foot
 18 allocation of Colorado River water, for which Tacna has contracted with the Wellton-Mohawk
 19 Irrigation and Drainage District.

20 45. The two construction phases Tacna proposes to finance with the proceeds of the WIFA
 21 loan are as follows:

22 Phase 1: Construction of a canal turn-out, pumping site and approximately 8,000
 23 feet of transmission main. The estimated cost for Phase 1 is \$66,033.

24 Phase 2: Construction of a 100 GPM Trimite water treatment plant (adsorption
 25 clarifier/filter tank), additional booster pumps, and refurbishment of an
 26 existing 325,000 gallon storage tank. The estimated cost for Phase 2 is
 \$194,235.

27 46. Staff states that construction of Phase 1 and Phase 2 are needed for the new 100 GPM
 28 water treatment system that will treat surface water and groundwater to enable Tacna to meet the new

1 EPA arsenic MCL; that the water treatment system project is appropriate; and that Tacna's cost
 2 estimate totaling \$260,268 is reasonable. Staff states, however, that it has made no "used and useful"
 3 determination regarding the proposed project items and that no particular treatment should be inferred
 4 for ratemaking or rate base purposes in the future.

5 47. Tacna is not requesting financing authority for the third and fourth phases of planned
 6 projects to utilize the allocation of Colorado River water from the Wellton-Mohawk Irrigation and
 7 Drainage District. Tacna currently has an application pending in Docket No. W-01344A-04-0815 for
 8 the extension of its CC&N to provide water utility service to approximately 10 new parcels of land.
 9 Staff states that Tacna's planned Phase 3 includes a new 300,000 gallon storage tank, booster system
 10 and 15,000 feet of transmission main, at an estimated cost of \$307,500, and that Phase 4 consists of a
 11 second new 300,000 gallon storage tank, booster system and 14,500 feet of transmission main, at an
 12 estimated cost of \$378,246.

13 48. Staff states that based on its review of documentation for the proposed WIFA loan,
 14 Tacna anticipates borrowing \$195,201 from WIFA, and using \$65,067 in equity to finance the
 15 estimated \$260,268 cost of the Phase 1 and Phase 2 projects. Staff performed a financial analysis of
 16 that proposed debt amount based on Staff's recommended rates in the consolidated rate case and on
 17 the Company's financial statements dated December 31, 2003.

18 49. Staff states that at December 31, 2003, Tacna's capital structure consisted of 100
 19 percent equity. If Tacna infuses equity of \$65,067 and draws the entire proposed loan of \$195,201,
 20 Tacna's capital structure will consist of 1.7 percent short-term debt, 68.4 percent long-term debt, and
 21 29.9 percent equity

22 50. Staff also examined the effects of the proposed financing on Tacna's Times Interest
 23 Earned Ratio ("TIER")¹ and Debt Service Coverage ("DSC") ratio.² The pro forma effect of Tacna
 24

25 ¹ The TIER represents the number of times earnings will cover interest expense on short-term and long-term debt. A
 26 TIER greater than 1.0 means that operating income is greater than interest expense. A TIER of less than 1.0 is not
 sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

27 ² The DSC ratio represents the number of times internally generated cash will cover required principal and interest
 28 payments on long-term debt. A DSC greater than 1.0 means that operating cash flow is sufficient to cover debt
 obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations
 and that another source of funds is needed to avoid default.

1 obtaining a \$195,201 loan at an interest rate of 6.75 percent, infusing \$65,067 in equity, and
2 implementing the rates recommended by Staff in this proceeding would produce a TIER of 0.86 and a
3 DSC of 0.63. Staff states that these ratios indicate that Staff's recommended permanent rates would
4 provide insufficient earnings and operating cash flow for Tacna to meet its long-term debt
5 obligations.

6 51. Staff states that while an appropriate capital structure for a utility would have at least
7 40 percent equity, and Tacna's proposed debt would result in a capital structure that is more
8 leveraged than preferable, Tacna must comply with the new EPA MCL for arsenic regardless of its
9 financial position, and that there are no other known options for Tacna to finance the construction of
10 the arsenic remediation plant.

11 52. Staff states that Tacna should develop a plan to keep its equity from falling below
12 approximately 30 percent in the short term and to build equity to at least 40 percent of total capital in
13 the long term.

14 53. Staff recommends approval of Tacna's request for authorization to incur long-term
15 debt of \$195,201 for the purpose of financing Tacna's planned Phase 1 and Phase 2 system
16 improvements associated with its need to meet the new EPA MCL for arsenic, with the understanding
17 that the Commission will subsequently also consider an arsenic removal surcharge to enable the
18 Company to meet its principal and interest obligation on the proposed WIFA loan and incremental
19 income taxes on the surcharge.³ Staff made the following recommendations in relation to the
20 proposed financing:

21 (a) that the Company be ordered to file with Docket Control as a compliance
22 item in this docket an arsenic removal surcharge tariff application that
23 would enable the Company to meet its principal and interest obligations
24 on the proposed WIFA loan and income taxes on the surcharge;

25 (b) that the Company be ordered to include in its arsenic removal surcharge
26 tariff application an increase in revenue calculation reached following the

27 ³ Staff prepared a pro forma income statement and other financial information demonstrating that the addition of \$19,076
28 of surcharge revenue would provide the Company with the funds necessary to pay interest at 6.75 percent and principal
on a 20 year loan for \$195,201 and to pay the incremental income taxes resulting from the change in taxable income.
Staff's pro forma \$19,076 surcharge would produce a 2.32 TIER and a 1.70 DSC.

methodology presented in Schedule CSB-4 of Staff's financing report in this matter,⁴ using actual loan amounts to calculate the additional revenue needed to meet its interest, principal and additional income tax obligations on the WIFA loan;

(c) that the Company be ordered to file with Docket Control as a compliance item in this docket copies of its calculation of revenue requirement for principal and interest obligations on the WIFA loan and incremental income taxes on the surcharge, within 60 days after the loan agreement is signed by both WIFA and the Company;

(d) that the Company be authorized to execute any documents necessary to effectuate the authorization granted; and

(e) that the Company be ordered to file with Docket Control as a compliance item in this docket all executed financing documents within 60 days after the loan agreement is signed.

54. Staff reports that the Arizona Department of Environmental Quality ("ADEQ") has reported no deficiencies for the Company and has determined that Tacna's water system is currently delivering water that meets the water quality standards required by A.A.C. Title 18, Chapter 4.

55. Tacna is not located within an Active Management Area ("AMA") as defined by the Arizona Department of Water Resources ("ADWR"), so the Company is not subject to AMA requirements.

56. Tacna is in compliance with Commission filing requirements.

57. Tacna is current in its property and sales tax payments.

58. Because an allowance for the property tax expense of Tacna is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers are being remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure Tacna annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the company is current in paying its property taxes in Arizona.

⁴ A copy of Schedule CSB-4 is attached to this Decision as Exhibit A.

59. Staff's recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. Tacna is a public service corporation within the meaning of Article XV of the Arizona Corporation Commission and A.R.S. Sections 40-250, 40-251, 40-301, 40-302 and 40-303.

2. The Commission has jurisdiction over Tacna and the subject matter of the applications.

3. Notice of the applications was provided in the manner prescribed by law.

4. The rates and charges authorized herein are just and reasonable and should be approved without a hearing.

5. The financing approved herein is for lawful purposes, within Tacna's corporate powers, is compatible with the public interest, with sound financial practices, with proper performance by Tacna of service as a public service corporation, and will not impair Tacna's ability to perform that service.

6. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Tacna Water Management Company shall file, by April 28, 2006, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGES:

Residential:

5/8" x 3/4" Meter	\$ 7.00
3/4" Meter	7.00
1" Meter	11.62
1 1/2" Meter	23.25
2" Meter	37.20
3" Meter	69.75
4" Meter	116.25
6" Meter	232.50

Commercial:

5/8" x 3/4" Meter	\$ 7.00
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1	¾" Meter	7.00
	1" Meter	11.62
2	1 ½" Meter	23.25
	2" Meter	37.20
3	3" Meter	69.75
	4" Meter	116.25
4	6" Meter	232.50

Commodity Charge per 1,000 gallons

6	Tier one: zero gallons to 3,000 gallons	\$0.75
	Tier two: 3,001 gallons to 7,000 gallons	0.95
7	Tier three: all gallons over 7,000 gallons	1.05

SERVICE LINE AND METERINSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

10	5/8" x ¾" Meter	\$ 520.00
	¾" Meter	600.00
11	1" Meter	690.00
	1 ½" Meter	935.00
12	2" Meter	1,595.00
	3" Meter	2,275.00
13	4" Meter	3,520.00
14	6" Meter	6,275.00

SERVICE CHARGES:

15	Establishment	\$30.00
16	Establishment (After Hours)	45.00
17	Reconnection (Delinquent)	25.00
	Reconnection (Delinquent) After Hours	45.00
18	Meter Test (If Correct)	25.00
	Deposit	*
19	Deposit Interest (per annum)	*
	Re-Establishment (within 12 months)	**
20	NSF Check	20.00
21	Deferred Payment	0.00%
	Meter Re-Read (If Correct)	20.00
22	Late Fee	***

* Per A.A.C. R14-2-403(B).

** Months off system times the monthly minimum, per A.A.C. R14-2-403(D).

*** 1.50 percent of unpaid monthly balance.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after May 1, 2006.

IT IS FURTHER ORDERED that that in addition to collection of its regular rates and charges, Tacna Water Management Company shall collect from its customers a proportionate share

1 of any privilege, sales or use tax per Commission Rule R14-2-409(D)(5).

2 IT IS FURTHER ORDERED that Tacna Water Management Company shall notify its
3 customers of the revised rates and charges authorized herein, and their effective date, in a form
4 acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly
5 scheduled billing.

6 IT IS FURTHER ORDERED that Tacna Water Management Company shall file with the
7 Commission's Docket Control, as a compliance item in this docket, a copy of the notice it sends to its
8 customers within 60 days of the effective date of this Decision.

9 IT IS FURTHER ORDERED that Tacna Water Management Company shall either correctly
10 file its tax returns as a corporate entity, correcting for the last three tax years or file for dissolution of
11 the corporate status with the Corporations Division and make the utility a sole proprietorship and
12 shall file, within 120 days, with Commission Docket Control as a compliance item in this docket,
13 either copies of the corrected tax returns or documentation of its corporate dissolution.

14 IT IS FURTHER ORDERED that Tacna Water Management Company shall use the
15 depreciation rates delineated in Table B of the Engineering Report filed in this case on a going
16 forward basis.

17 IT IS FURTHER ORDERED that Tacna Water Management Company shall install wellhead
18 meters during construction of the proposed water treatment system or within on year of this Decision,
19 whichever is sooner, and shall file within 365 days, with Commission Docket Control as a
20 compliance item in this docket, documentation demonstrating that the wellhead meters have been
21 installed.

22 IT IS FURTHER ORDERED that Tacna Water Management Company shall file within 45
23 days, with Commission Docket Control as a compliance item in this docket, a curtailment plan in the
24 form of Attachment CPT-1 of Staff's Engineering Report, for review and certification.

25 IT IS FURTHER ORDERED that Tacna Water Management Company shall file, within 45
26 days, with Commission Docket Control as a compliance item in this docket, a backflow prevention
27 tariff in the form found at www.cc.state.az.us/utility/forms/cross_c.pdf on the Commission's website.

28 IT IS FURTHER ORDERED that Tacna Water Management Company shall file, within 60

1 days, with Commission Docket Control as a compliance item in this docket, a copy of the Arizona
2 Department of Environmental Quality Certificate of Approval to Construct for the water treatment
3 system improvements necessary to meet the new EPA MCL for arsenic.

4 IT IS FURTHER ORDERED that Tacna Water Management Company's request for approval
5 of a WIFA loan in an amount not to exceed \$195,201 is hereby approved.

6 IT IS FURTHER ORDERED that the financing authority granted herein is expressly
7 contingent upon Tacna Water Management Company's use of the proceeds for the purposes set forth
8 in its application.

9 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
10 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
11 proceeds derived thereby for purposes of establishing just and reasonable rates.

12 IT IS FURTHER ORDERED that Tacna Water Management Company is hereby authorized
13 to engage in any transactions and to execute any documents necessary to effectuate the authorization
14 granted hereinabove.

15 IT IS FURTHER ORDERED that Tacna Water Management Company shall file copies of all
16 executed financing documents setting forth the terms of the financing, within 60 days after the loan
17 agreement is signed by both Tacna Water Management Company and WIFA.

18 IT IS FURTHER ORDERED that Tacna Water Management Company shall file with Docket
19 Control, as a compliance item in this docket, within 60 days after the WIFA loan agreement is signed
20 by both Tacna Water Management Company and WIFA, copies of its calculation of revenue
21 requirement for principal and interest obligations on the actual amount of the WIFA loan and
22 incremental income taxes on the surcharge, following the methodology set forth in Exhibit A,
23 attached hereto.

24 IT IS FURTHER ORDERED that Tacna Water Management Company shall file with Docket
25 Control, as a compliance item in this docket, an application for approval of an arsenic removal
26 surcharge tariff that would enable it to meet its principal and interest obligations on the actual amount
27 of the WIFA loan and income taxes on the surcharges.
28

IT IS FURTHER ORDERED that the application for approval of an arsenic removal surcharge tariff shall include an increase in revenue calculation reached following the methodology set forth in Exhibit A, attached hereto, using the actual amount of the WIFA loan to calculate the additional revenue needed to meet its interest, principal and additional income tax obligations on the WIFA loan.

IT IS FURTHER ORDERED that Tacna Water Management Company shall annually file as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2006.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
TW:mlj

1 SERVICE LIST FOR: TACNA WATER MANAGEMENT COMPANY
2 DOCKET NOS.: W-01344A-05-0183 and W-01344A-05-0647
3 Don Kelland
4 Tacna Water Company
5 2993 South Arizona Avenue
6 Yuma, AZ 85364
7 Christopher Kempley, Chief Counsel
8 Legal Division
9 ARIZONA CORPORATION COMMISSION
10 1200 West Washington Street
11 Phoenix, AZ 85007
12
13
14
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16
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Tacna Water Management Company
Docket No. W-01344A-05-0647
Application for Financing

Table A - CSB-4

Instructions to Calculate the Annual Surcharge Revenue Requirement on the Loan**Step 1. Find the Annual Payment on the Loan**

Refer to Table A, the Conversion Factor Table. Reading the table from top to bottom, find the interest rate in column A that is equal to the stated annual interest rate of the loan. Reading across the table, find the Annual Payment Conversion Factor in Column B that corresponds with the loan interest rate (in the event that the loan interest rate is different from the interest rates in Table A, use the next higher interest rate that can be found in Table A). Multiply that annual payment conversion factor by the total amount of the loan to calculate the annual debt service on the loan.

Annual payment conversion factor
(*) Times total amount of the loan
(=) Equals annual debt service on the loan

Step 2. Find the Annual Interest Payment on the Loan

Refer to Table A and find the annual interest payment conversion factor in Column C that corresponds with the stated annual interest rate of the loan. Multiply the annual interest payment conversion factor by the total amount of the loan to calculate the annual interest expense on the loan.

Annual interest payment conversion factor
(*) Times total amount of the loan
(=) Equals annual interest expense on the loan

Step 3. Find the Annual Principal Payment on the Loan

Refer to Table A and find the annual principal payment conversion factor in Column D that corresponds with the stated annual interest rate of the loan. Multiply the annual principal payment conversion factor by the total amount of the loan to calculate the annual principal payment on the loan.

Annual principal payment conversion factor
(*) Times total amount of the loan
(=) Equals annual principal payment on the loan

Tacna Water Management Company
 Docket No. W-01344A-05-0647
 Application for Financing

Table A - CSB-4

Step 4. Find the Gross Revenue Conversion Factor¹ (GRCF)

The GRCF calculated below is used in step 5.

$$\text{GRCF} = \frac{1}{1 - \text{Effective incremental income tax rate}^2}$$

$$\text{GRCF} = \frac{1}{1 - 0.2092} = \frac{1}{0.7907} = 1.2646$$

Step 5. Find the Incremental Income Tax Factor

The incremental income tax factor is calculated below:

$$\begin{aligned} \text{Incremental Income Tax Factor} &= \text{GRCF} - 1 \\ &= 1.2646 - 1 \\ &= 0.2646 \end{aligned}$$

Step 6. Find the Annual Income Tax Component of the Surcharge Revenue

Multiply the incremental income tax factor by the annual principal payment on the loan determined in step 3 to calculate the income tax component of the annual surcharge revenue.

Incremental income tax conversion factor
 (*) Times the annual principal payment on the loan
 (=) Equals the annual income tax component of the annual surcharge revenue

Step 7. Find the Debt Service Component of the Annual Surcharge Revenue

Add the annual interest expense on the loan determined in step 2 to the annual principal payment determined in step 3. The sum is the debt service component of the annual surcharge revenue.

Annual interest payment on the loan
 (+) Plus annual principal payment
 (=) Equals the debt service component of the annual surcharge revenue

¹ The gross revenue conversion factor indicates the incremental revenue required to increase operating income by one dollar.

² The effective income tax rate represents the effective tax rate on the incremental income. Use the effective incremental income tax rate of 20.9228%.

Tacna Water Management Company
Docket No. W-01344A-05-0647
Application for Financing

Table A - CSB-4

Step 8. Find the Total Annual Surcharge Revenue Requirement Needed for the Loan.

Add the annual income tax component determined in step 6 to the annual debt service component determined in step 7. The sum equals the annual surcharge revenue requirement for the loan.

Annual income tax component of the surcharge revenue

(+) Plus annual debt service component of the surcharge revenue

(=) Equals the total annual surcharge revenue requirement for the loan

*Instruction for Step 9***Step 9. Find the equivalent bills.**

Multiply the NARUC meter capacity multiplier by the number of current customers and by the number of months per year. The sum of the products equals the equivalent bills.

Result

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Meter Capacity Multiplier	Number of Customers	Number of Months In Year	Equivalent Bills Col B x C x D
5/8"x 3/4" Meter	1	0	12	0
3/4" Meter	1.5	0	12	0
1" Meter	2.5	0	12	0
1½" Meter	5	0	12	0
2" Meter	8	0	12	0
3" Meter	15	0	12	0
4" Meter	25	0	12	0
6" Meter	50	0	12	0
			Total	0

*Instruction for Step 10***Step 10. Find the monthly surcharge for 5/8" x 3/4" customers.**

Divide the result obtained in step 8 by the number of equivalent bills calculated in step 9 to obtain the monthly surcharge for 5/8" x 3/4" customers.

Result

\$19,086	Total annual surcharge revenue requirement for the loan (Step 8)
÷ 2,904	Number of equivalent bills
\$ 6.57	Total monthly surcharge for 5/8" x 3/4" customers

Tacna Water Management Company
Docket No. W-01344A-05-0647
Application for Financing

Table A - CSB-4

Instruction for Step 11

Step 11. Find the monthly surcharge for remaining meter size customers.

Multiply the Result obtained in step 10 by the NARUC meter capacity multipliers to obtain the monthly surcharges for all other meter sizes.

Col A	Col B	Col C	Col D
Meter Size	NARUC Meter Capacity Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	\$0.00	\$ 0.00
3/4" Meter	1.5	\$0.00	\$ 0.00
1" Meter	2.5	\$0.00	\$ 0.00
1½" Meter	5	\$0.00	\$ 0.00
2" Meter	8	\$0.00	\$ 0.00
3" Meter	15	\$0.00	\$ 0.00
4" Meter	25	\$0.00	\$ 0.00
6" Meter	50	\$0.00	\$ 0.00

Tacna Water Management Company
 Docket No. W-01344A-05-0647
 Application for Financing

Table A - CSB-4

Example

Loan amount: \$195,201
 Term: 20 years
 Stated Annual Interest Rate: 6.75%

*Instruction for Step 1***Step 1. Find the Annual Payment on the Loan**

Refer to Table A, the Conversion Factor Table. Reading the table from top to bottom, find the interest rate in column A that is equal to the stated annual interest rate of the loan. Reading across the table, find the Annual Payment Conversion Factor in Column B that corresponds with the loan interest rate (in the event that the loan interest rate is different from the interest rates in Table A, use the next higher interest rate that can be found in Table A). Multiply that annual payment conversion factor by the total amount of the loan to calculate the annual debt service on the loan.

Result

0.0912	Annual Payment Conversion Factor (Table A, Line 14, Column B)
x \$195,201	Total loan amount
\$ 17,802	Annual loan payment

*Instruction for Step 2***Step 2. Find the Annual Interest Payment on the Loan**

Refer to Table A and find the annual interest payment conversion factor in Column C that corresponds with the stated annual interest rate of the loan. Multiply the annual interest payment conversion factor by the total amount of the loan to calculate the annual interest expense on the loan.

Result

0.0668	Table A, Line 14, Column C
x \$195,201	Total loan amount
\$ 13,039	Annual interest expense

*Instruction for Step 3***Step 3. Find the Annual Principal Payment on the Loan**

Refer to Table A and find the annual principal payment conversion factor in Column D that corresponds with the stated annual interest rate of the loan. Multiply the annual principal payment conversion factor by the total amount of the loan to calculate the annual principal payment on the loan.

Result

0.0245	Table A, Line 14, Column D
x \$195,201	Total loan amount
\$ 4,782	Annual principal payment

Tacna Water Management Company
 Docket No. W-01344A-05-0647
 Application for Financing

Table A - CSB-4

*Instruction for Step 4***Step 4. Find the Gross Revenue Conversion Factor (GRCF)**

The GRCF calculated below is used in step 5.

Result

$$\text{GRCF} = \frac{1}{1 - \text{Effective incremental income tax rate}}$$

$$\text{GRCF} = \frac{1}{1 - 0.2092} = \frac{1}{0.7907} = 1.2646$$

*Instruction for Step 5***Step 5. Find the Incremental Income Tax Factor**

The incremental income tax factor is calculated below:

Result

$$\begin{aligned} \text{Incremental Income Tax Factor} &= \text{GRCF} - 1 \\ &= 1.2646 - 1 \\ &= 0.2646 \end{aligned}$$

*Instruction for Step 6***Step 6. Find the Annual Income Tax Component of the Surcharge Revenue**

Multiply the incremental income tax factor by the annual principal payment on the loan determined in step 3 to calculate the income tax component of the annual surcharge revenue.

Result

0.2646	Incremental income tax factor (Step 5)
x \$4,782	Total loan amount
\$1,265	Annual income tax component of the annual surcharge revenue

*Instruction for Step 7***Step 7. Find the Debt Service Component of the Annual Surcharge Revenue**

Add the annual interest expense on the loan determined in step 2 to the annual principal payment determined in step 3. The sum is the debt service component of the annual surcharge revenue.

Tacna Water Management Company
Docket No. W-01344A-05-0647
Application for Financing

Table A - CSB-4

Result

\$13,039	Annual interest expense (Step 2)
+ \$ 4,782	Annual principal payment (Step 3)
\$17,821	Debt service component of the annual surcharge revenue

Instruction for Step 8

Step 8. Find the Total Annual Surcharge Revenue Requirement Needed for the Loan.

Add the annual income tax component determined in step 6 to the annual debt service component determined in step 7. The sum equals the annual surcharge revenue requirement for the loan.

Result

\$ 1,265	Annual income tax component (Step 6)
+ \$17,821	Debt service component (Step 7)
\$19,086	Total annual surcharge revenue requirement for the loan

Instruction for Step 9

Step 9. Find the equivalent bills.

Multiply the NARUC meter capacity multiplier by the number of current customers and by the number of months per year. The sum of the products equals the equivalent bills.

Result

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Meter Capacity Multiplier	Number of Customers	Number of Months In Year	Equivalent Bills Col B x C x D
5/8"x 3/4" Meter	1	0	12	0
3/4" Meter	1.5	114	12	2,052
1" Meter	2.5	0	12	0
1½" Meter	5	11	12	660
2" Meter	8	2	12	192
3" Meter	15	0	12	0
4" Meter	25	0	12	0
6" Meter	50	0	12	0
			Total	2,904

Tacna Water Management Company
Docket No. W-01344A-05-0647
Application for Financing

Table A - CSB-4

Instruction for Step 10

Step 10. Find the monthly surcharge for 5/8" x 3/4" customers.

Divide the result obtained in step 8 by the number of equivalent bills calculated in step 9 to obtain the monthly surcharge for 5/8" x 3/4" customers.

Result

\$19,086	Total annual surcharge revenue requirement for the loan (Step 8)
÷ 2,904	Number of equivalent bills
\$ 6.57	Total monthly surcharge for 5/8" x 3/4" customers

Instruction for Step 11

Step 11. Find the monthly surcharge for remaining meter size customers.

Multiply the Result obtained in step 10 by the NARUC meter capacity multipliers to obtain the monthly surcharges for all other meter sizes.

Col A	Col B	Col C	Col D
Meter Size	NARUC Meter Capacity Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	\$6.57	\$ 6.57
3/4" Meter	1.5	\$6.57	\$ 9.85
1" Meter	2.5	\$6.57	\$ 16.42
1½" Meter	5	\$6.57	\$ 32.85
2" Meter	8	\$6.57	\$ 52.56
3" Meter	15	\$6.57	\$ 98.55
4" Meter	25	\$6.57	\$164.25
6" Meter	50	\$6.57	\$328.50